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ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications Docket No. MC96-3

OFFICE OF THE CONSUMER ADVOCATE OBJECTION
TO CROSS-EXAMINATION EXHIBIT
SUBMITTED TO WITNESS CALLOW
(November 15, 1996)

The Office of the Consumer Advocate (OCA) hereby objects to a cross-examination exhibit (attached) submitted this date in advance of witness Callow's appearance for oral cross-examination on November 18. The ground for the objection is the implausibility of the premise that underlies the exercise, i.e., witness Callow is asked to assume that "the price decrease for certain boxes results in no new customers."

The purpose of the cross-examination exhibit appears to be a demonstration that the cost coverage calculated by witness Callow would be lower if one assumes that price decreases would not generate any new volumes. Such an assumption is contrary to well-established economic principles and is even incompatible with the Postal Service's own conclusion that post office box volumes will decrease if prices are raised. USPS-T-1, WP C at

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Bfr

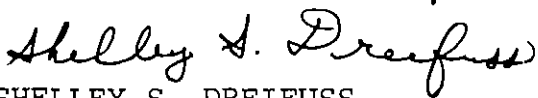
2-3. The obverse of this principle, which has been applied by the OCA, is that when prices are reduced, volumes will tend to increase. Having witness Callow labor through an exercise that contradicts the traditional price/volume relationship is pointless.

Anticipating a Postal Service argument that later in the proceeding, in rebuttal testimony, it will be able to prove that reducing prices does not have the effect of increasing volumes, OCA would protest that having witness Callow answer questions concerning this cross-examination exhibit now and making such cross-examination part of the record unreasonably prejudices the interests of the OCA. If (more likely, when,) the Postal Service's premise, that price decreases do not tend to generate higher volumes, is refuted, OCA will then have to move to strike all of the Postal Service's cross-examination of witness Callow related to this cross-examination exhibit because the underlying premise would have been proven false.

The changes made by the Postal Service to OCA-LR-3 (November 5, 1996), and presented in the cross-examination exhibit, are not properly introduced at a hearing on witness Callow's testimony. Such proofs as the Postal Service is able to make with the subject cross-examination exhibit properly belong in the rebuttal testimony of a Postal Service witness, accompanied by proof of

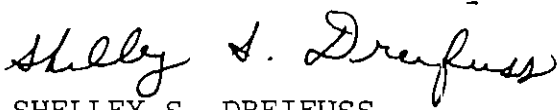
the unrealistic assumption that decreases in price do not have the effect of increasing volumes. In short, OCA objects to any cross-examination of witness Callow on the proffered cross-examination exhibit.

Respectfully submitted,


SHELLEY S. DREIFUSS
Attorney

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.


SHELLEY S. DREIFUSS
Attorney

Washington, D.C. 20268-0001
November 15, 1996

11/15/96

11:47

202 268 5402

USPS LAW DEPT

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NATIONAL LITIGATION
LAW DEPARTMENT



FAX TRANSMITTAL COVER SHEET

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DATE: November 15, 1996

TIME: 11:29am

TO: Shelley Dreifuss
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NOTE: 1 page, excluding cover page.

MSG: Attached is a cross-examination exhibit for witness Callow. It basically re-calculates his cost coverage with one changed assumption, that is, that the price decrease for certain boxes results in no new customers. Footnotes in the column headings indicate the sources of the information. As I indicated on the phone, it may have some rounding errors, particularly in the line for size five boxes in Group Ia, but otherwise should map perfectly with OCA-LR-3. Having Mr. Callow review this in advance will speed the hearing, because otherwise I will have to take him through the referenced sources while he is on the stand.

USPS Cross Examination Exhibit
XE-1 (Callow), MC96-3

POST OFFICE BOX SERVICE
OCA PROPOSAL WITH NO NEW BOXHOLDERS

POST OFFICE BOXES		USPS TYBR No. of Boxes	OCA Proposed Box Fees	Total Annual Revenues	Total Annual Costs
Delivery Group	Box Size	[1]	[2]	[3]=[1]*[2]	[4]
IA	1	35,409	\$48.00	\$1,699,632	\$1,605,554
	2	2,236	\$66.00	\$147,576	\$144,553
	3	1,239	\$122.00	\$151,168	\$151,856
	4	129	\$210.00	\$27,090	\$30,763
	5	35	\$410.00	\$14,350	\$16,451
	ALL	39,048	\$52.24	\$2,039,806	\$1,949,167
IB	1	63,586	\$44.00	\$2,797,784	\$2,587,180
	2	14,735	\$60.00	\$884,100	\$849,700
	3	5,385	\$110.00	\$592,350	\$584,800
	4	843	\$190.00	\$160,170	\$177,420
	5	838	\$358.00	\$300,004	\$347,141
	ALL	85,387	\$55.45	\$4,734,408	\$4,546,241
IC	1	4,558,877	\$32.00	\$145,884,064	\$133,649,189
	2	1,928,614	\$43.00	\$82,930,402	\$78,317,056
	3	641,776	\$76.00	\$48,774,976	\$47,801,423
	4	137,917	\$142.00	\$19,584,214	\$19,616,377
	5	29,183	\$272.00	\$7,937,776	\$8,105,098
	ALL	7,296,367	\$41.82	\$305,111,432	\$287,489,143
II	1	4,704,526	\$16.00	\$75,272,419	\$127,376,770
	2	1,784,534	\$26.00	\$46,397,876	\$66,488,085
	3	453,368	\$48.00	\$21,761,654	\$30,692,022
	4	37,798	\$70.00	\$2,645,862	\$4,858,906
	5	4,215	\$110.00	\$463,675	\$1,054,815
	ALL	6,984,441	\$20.98	\$146,541,486	\$230,470,598
III	1 to 5	2,707,964	\$0	\$0	\$0
TOTAL		17,113,207		\$458,427,132	\$524,455,149
CS		101,660		\$34,463,703	
RESERVED		178,717		\$5,381,510	
GRAND TOTAL		17,393,584		\$498,272,345	\$524,455,149

COST COVERAGE Grand Total [3] / [4]

95.0%

NOTES:

- [1] For Group I: Column [1], page 3, OCA-LR-3 (Re-revised, November 5, 1996)
For Groups II and III: Column [2], page 3, OCA-LR-3 (Re-revised, November 5, 1996)
- [2] Column 5, page 3, OCA-LR-3 (Re-revised, November 5, 1996)
- [3] [1]*[2]
- [4] Column [9], page 3, OCA-LR-3 (Re-revised, November 5, 1996),
as recalculated after the changes to column [1].